



EURACOAL Market Report 3/2009

November 2009

WORLD MARKET

In 2009 the global economy is expected to slow down further. Whilst the economies of OECD countries are expected to fall by -3.4%, Non-OECD-countries are expected to grow by +1.6%. Only a very slow recovery is being expected for the year 2010 in Europe and Japan. China alone had an increase of +9% in 2008 and it is expected to reach +8.3% in 2009. The economic growth of Non-OECD countries was and will be lead by China and India, leading to a higher demand of steam coal imports. Steam coal trade increased from 2000 to 2007 by an average of 10% annually, the years 2008-2010 will be years of consolidation, which still shows a relatively stable situation compared with other industries.

On the global coal market, steam coal demand slipped back. The low gas prices and the stagnating economic activities drove the world to use very little coal. Even the USA decreased its coal imports. A stabilising factor is nevertheless the increasing demand from China and India. Whilst China remained a net coal exporter in 2008 (+8 Mt), it became a net importer in 2009, with a total coal import increase of some 60 Mt. This means that without the additional demand from China, World steam coal market would be oversupplied by 52 Mt of steam coal. China herewith has a role of 'swing demander'.

WORLD COAL TRADE

	2009 (1-6)	2008 (1-6)	Difference
Mt=t			
Steam coal	311	315	- 4
Coking coal	80	102	- 22
Total	391	417	- 26

1. STEAM COAL (see Table 2)

On the Atlantic market steam coal (January-August 2009) reached 133 Mt, which is 10 Mt less than for the same period in 2008. South Africa exported less to Europe but much more to India. Colombia kept its position in Europe, but lost sales in North, Middle and South America due to weaker demands. Russia kept its position in Europe and increased exports to the Far East. Poland and Venezuela nearly disappeared from the market.

b) Pacific Market

The Pacific market decreased by 5 Mt with Australia being the only significant exporter, increasing exports by 8 Mt into the Pacific rim and Indonesia increasing exports by 1 Mt. The main decrease was observed in China (- 13 Mt).

	2009 (1-6)	2008 (1-6)	Difference
Exporting countries	Mt=t		
Australia	67	59	+ 8
China	11	24	- 13
Indonesia	78	77	+ 1
Vietnam	12	13	- 1
Others	10	10	0
Total	178	183	- 5

b) Atlantic Market supply

On the Atlantic market, South Africa (+ 4 Mt) and Russia (+ 3 Mt) further increase exports. The total Atlantic market shrunk by 1 Mt.

	2009 (1-6)	2008 (1-6)	Difference
Exporting countries	Mt=t		
Colombia	31	34	- 3
Russia	46	43	+ 3
South Africa	39	35	+ 4
Venezuela	2	4	- 2
USA	7	8	- 1
Others	8	8	0
Total	133	132	- 1

2. COKING COAL SUPPLY (see Table 3)

The seaborne coking coal market dropped by -22 Mt in the first 6 months 2009 compared to the same period in 2008 and reached 80 Mt. Major decreases were observed in Australia (-9 Mt), Canada (-6 Mt) and the USA (-5 Mt).

	2009 (1-6)	2008 (1-6)	Difference
Exporting countries	Mt=t		
Australia	57	66	- 9
Canada	8	14	- 6
China	0	2	- 2
Russia	2	2	0
USA	13	18	- 5
Total	80	102	- 22

4. PRICE EVOLUTION (see Table 1)

a) Steam Coal Prices

	March 2008	August 2008	December 2008	March 2009	August 2009
US\$/tce	170.00	219.00	90.00	68.00	82.00
€/tce	110.00	146.00	67.00	52.00	58.00

Steam coal prices are still relatively high and are not expected to become competitive to gas in Europe in the short-term. Gas is set to remain at attractive price levels into 2010. The low demand for steam coal in the Atlantic Basin, also in 2010, will not allow any major price increases because of the slow industrial recovery in the US and in Europe. The weak dollar is a further problem for coal producers. Renewables will continue to increase market share in electricity production in Europe.

To conclude it can be said that Global steam coal trade has entered a phase of consolidation between 2008 and 2010 after enormous growth rates since 2000. Without the unexpected high additional demand from China, the steam coal market would have a large imbalance between demand and supply.

b) Coking Coal and Coke Prices

Although the demand for coking coal stayed weak (except from China), the steel industry is slightly picking up, leading to growing coking coal prices on the spot-market.

The Chinese coke market totally collapsed; in April 2009 there were only some 20.000 t of coke exported. After the very high coke prices in summer 2008 the prices collapsed in winter 2008 but are currently again picking up slowly. In March 2009 the coke price fob-China was 420 US\$/t.

EVOLUTION OF COKE PRICES FOB CHINA

2005 / 2006	125 US\$/t fob
2006 / 2007	115 US\$/t fob
2007 / 2008	95 US\$/t fob
2008 / 2009	300 US\$/t fob

5. FREIGHT RATES

Freight rates for bulk carriers have recovered from the very low levels earlier in the year, being driven back up by stronger demand from China for iron ore. The differentials between ARA and fob Richards Bay prices are generally lower than the freight rates, demonstrating the relative strength of the Pacific compared to the Atlantic market.

5. OUTLOOK

The reduction of industrial production in the OECD (Europe, Japan, United States) weakens the demand for electricity and thermal coal in industrialized countries in 2008 / 2009, maybe even in 2010. Low gas prices and increasing amounts of electricity from renewable sources will keep demand weak for imported coal in Europe but also in the US.

The Pacific market will continue to play a more dominant role in the thermal coal market. The swing demander role of China is of increasing importance. The supply side continues to be dominated by Indonesia, Australia, Colombia, Russia and South Africa. Smaller producers like Poland and Venezuela lost market share.

EUROPEAN MARKET

1. EUROPEAN COAL INDUSTRY

	2009 (1-6)	2008 (1-6)
	Mt = t	Mt = t
Domestic hard coal production	67.4	78.6
Hard coal imports**	94.3	103.6
Lignite production	203.6	206.6
Total	365.3	388.8

** including coke

In **France**, primary energy consumption decreased by 4.3% to 163 Mtoe in the first eight months of 2009. Coal consumption decreased by 16%. Its share in the energy mix dropped to 4% only. Net hard coal imports amounted to 9.75 Mt in the first eight months of 2009, compared with 13.6 Mt in 2008 (-28%). Hard coal consumption fell

to 10.7 Mt (-16%). Consumption by power utilities decreased to 4.6 Mt (-9%), whereas the steel industry demand collapsed to 3.7 Mt (-38%), in line with the collapse in French crude steel production (-33%). The other sectors consumed 2.3 Mt. Stocks at end August 2009 totalled 7.3 Mt representing almost 9 months of current consumption.

Starting in 2010, a new carbon tax will be applied to fossil fuels consumption based on their carbon contents. The tax rate equals 17€/t of CO₂, corresponding to 5.8 €/MWh of coal (i.e. 40-50€/t of coal). The power sector and industries included in the EU ETS are exempted.

In **Germany**, primary energy consumption fell according to first calculations of the *Arbeitsgemeinschaft Energiebilanzen* in January to June 2009 by 6 %. With lower energy prices, this trend was influenced above all by the low temperature (January, February) in comparison with the previous year and the strong economy slowdown. Consumption of hard coal was approximately 22 % less than in the previous year and lignite consumption was nearly on previous years level (- 0,7 %). Oil consumption increased by 1 %. This trend is especially linked to higher sales of light heating oil (+ 36 %) and natural gas consumption decreased by 11 %. The cooler weather during the first quarter of the year compared with the previous year could not compensate losses in the background of the depressed economy. Power generation by nuclear power stations decreased by about 9 %. The contribution of hydro-electric power plants was below the level of the previous year (- 9 %) and the contribution of wind power plants was lower (- 17 %). The consumption of other renewable sources of energy (primarily wood and other renewable sources of energy) increased so that the share of RE reached 6.6 % .

Total hard coal consumption for the first three quarters 2009 fell by 22% and reached 35.6 Mtce. This was mainly due to a smaller demand from the power sector, which decreased by 18%. The demand from the steel sector dropped as well by 32% and steel production fell by more than 20% due to the financial crisis and economic recession. Domestic hard coal production fell by 25% and reached some 13.8 Mtce. The reasons for the decline were further mine closures in Walsum and Saar as well as in Lippe. Germany has now six operating mines. Imports amounted to some 26 Mtce, representing nearly 24% less than in the previous year. Total domestic sales dropped by 42% to nearly 7.6 Mtce. The workforce dropped by 10%.

Having a closer look at the steel industry, pig iron production fell by more than 40% in the first three quarters 2009 compared to the same period in the previous year. Due to low utilisation rates of blast furnaces, the coke rate increased by more than 14%. Total hard coal input in the steel sector amounted therefore only to 9 Mtce.

Power generation from hard coal dropped to 75 TWh, due on the one hand to the economic recession, on the other hand to an increased power production from newly-built gas-fired power plants. The large availability of gas on the German market led further to low gas prices. Total hard coal input in power and heat production reached 25.6 Mtce.

From January to September 2009, German lignite production decreased by 3 % to 68,3 Mt. Production in the four German lignite districts developed differently. In the Rhineland (- 4 %) in the Lausitz (- 4 %) and in Helmstedt (- 11 %) production fell, in Central Germany (+ 3 %) production increased. The development in the individual districts corresponds directly to the varying availability of the respective power stations. Sales of refined products made from lignite were influenced by the cold weather. Production of lignite briquettes rose by 26 %. Sales of lignite dust decreased by 11 %.

Austria also imported less hard coal in the first half year 2009, partly due to one coal-fired power plant which was not in operation in this period. Austria has the problem of too many emissions, the tendency therefore goes against the building of new coal-fired power plants, heavily lobbied by the gas industry. There was a project to build a new coal-fired power plant in Voitsberg, but the government only released a permit to build a lignite-fired power plant. The problem is that there is no longer any lignite in Austria.

In the **Netherlands** imports in the first three quarters decreased by 15%. There are currently six new coal-fired power plant projects in discussion, amongst which two projects in the Port of Rotterdam, one on Maasvlachte by E.ON and Electrabel as well as the RWE project in Delft. The further announced project of Essent in the South of the country was halted, as Essent does not receive sufficient public support.

In the **United Kingdom** electricity consumption in the first 7 months 2009 decreased by 7.7%, coal consumption by 8%. Although coal consumption was high in the first three months of the year, it went down by 30% later in the year and even gas consumption decreased, despite relatively low prices. Nuclear increased dramatically as a result of better availability of stations. Coal stocks at power stations are very high, similar to those in 1995.

There can be an increase observed in indigenous coal produced in surface mines, which is expected to reach some 10 Mt at the end of the year. Larger mines belonging to UK Coal or Scottish Coal have their contract portfolio for a long period but smaller collieries could have problems in selling their coal, taking into account the huge stocks.

Coal imports are now dominated by Russian coal, imports from South Africa heavily decreased due to the NOx emissions associated with South African coals.

Belgium still did not produce any final figures for 2008 and even the provisional figures are not very reliable. As there was a significant drop in steel production, it is to be assumed that the same happened to coking coal imports. Steam coal imports dropped as well, Electrabel will have to build its new coal-fired power station outside Belgium, as there is a very heavy lobby against coal.

2. HARD COAL

	2009 (1-6)	2008 (1-6)
	Mt = t	Mt = t
Bulgaria	1.1	1.4
Czech Republic	5.6	6.7
Germany	7.0	10.2
Poland	38.6	45.1
Romania	1.1	1.5
Spain	5.1	5.4
United Kingdom	8.9	8.3
Total	67.4	78.6

POLAND

Due to the collapse of the steel industry, coke demand dropped by some 30 % on the home market. The demand from Germany and France as well was considerably lower or even cancelled for 2009. The industry nevertheless expects improvements of demand in the second half/end of 2010. Coke production should then even increase again in the following years:

COKE	2009	2010	2011	2012	2017
Production capacity	12.17 Mt	12.45 Mt	12.15 Mt	12.27 Mt	13.14 Mt

3. LIGNITE PRODUCTION

	2009 (1-6)	2008 (1-6)
	Mt = t	Mt = t
Bulgaria	11.6	11.9
Czech Republic	23.0	24.5
Germany	85.7	85.7
Greece	31.8	30.9
Hungary	4.5	4.5
Poland	28.0	28.6
Romania	14.2	15.6
Slovak Republic	2.5	2.5
Slovenia	2.3	2.4
Total	203.6	206.6

STEEL PRODUCTION (SEE TABLE 4)

Total world crude steel production for the first six months of 2009 was 549 Mt, a -21.3% decrease over the same period of 2008. Asia produced 360 Mt of crude steel, a decline of -7.8% over the first half of 2008. The EU produced 62.2 Mt of crude steel from January to

June 2009, down by -43.2% compared to the same months of 2008. North America showed a -48.5% decline of its crude steel production, producing 35.8 Mt during the first six months of 2009.

China produced 266.6 Mt of crude steel for the first half of 2009, an increase of 1.2% and Iran showed an increase of 12.1%, producing 5.6 Mt of crude steel during the first six months of 2009. All the other major steel-producing countries showed a decrease in their crude steel production in the first half of 2009.

However, China's crude steel production for July 2009 was 50.7 Mt, 12.6% higher than July 2008. It is the first time ever that China has produced over 50 Mt of crude steel in a month accounting for almost 50% of world crude steel production.

World Market Price evolution (Coal, Coke, Freight, Crude Oil)

MCIS Steam Coal Marker Price (7000kcal/kg)

		Jan	Feb	March	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
cif-NW Europe													
Steam Coal	2008	150.38	160.77	170.57	150.56	170.98	201.83	255.92	218.75	222.95	176.28	127.75	90.13
(US\$ / tce)	2009	98.47	89.48	67.61	76.71	68.95	82.31	76.30	82.43	78.34			
Steam Coal	2008	102.17	109.00	109.85	95.58	109.91	129.78	162.29	146.08	155.15	132.32	99.65	66.70
(EUR / tce)	2009	74.37	68.79	51.80	58.16	50.51	58.73	54.16	57.78	53.80			

Source: VDKI, Mc Closkey

fob-China

Coke (12.5%)

USD / t	2008	445	490	526	569	572	641	694	747	620	480	440	350
	2009	370	433	420	418	385	356	390	385	377			

Source: China Coal Report

Freight Rates (USD /t)

R Bay/Rotterdam	2008	29.49	30.70	34.80	38.40	52.19	50.45	41.70	36.75	25.55	11.93	6.45	5.85
(Capesize)	2009	7.39	10.78	7.81	7.42	12.69	20.71	16.89	14.25	11.62			
Newcastle/Rotterdam	2008	49.04	51.50	56.60	62.79	59.31	84.45	68.70	61.54	43.54	22.47	12.16	11.63
(Capesize)	2009	12.85	17.73	13.74	13.37	20.51	34.00	29.50	23.35	19.64			
Bolivar/Rotterdam	2008	28.76	29.80	33.70	40.70	59.31	53.35	49.75	39.25	24.34	11.38	5.06	5.12
(Capesize)	2009	7.76	11.56	9.60	9.00	13.93	28.45	22.20	16.25	13.55			

Source: VDKI

Currency Rates

EUR/USD	2008	0.68	0.68	0.64	0.63	0.64	0.64	0.63	0.67	0.70	0.75	0.78	0.74
	2009	0.76	0.78	0.77	0.77	0.73	0.71	0.71	0.70	0.69			
ZAR/USD	2008	6.99	7.66	7.99	7.76	7.61	7.94	7.62	7.67	8.05	9.77	10.10	9.91
	2009	9.92	10.01	9.96	9.01	8.39	8.04	7.95	7.95	7.52			
AUD/USD	2008	1.13	1.10	1.08	1.07	1.05	1.05	1.04	1.13	1.22	1.46	1.52	1.49
	2009	1.48	1.54	1.50	1.40	1.31	1.25	1.24	1.20	1.16			

Source: Exchange rates download center

Crude Oil (USD/Barrel)

Crude Oil	2008	88.35	90.64	99.03	105.16	119.39	128.33	131.22	112.41	96.85	69.16	49.76	38.60
	2009	41.54	41.41	45.78	50.20	56.98	68.36	64.59	71.35	61.17			

Source: OPEC Basket Prices

WORLD SEABORNE COAL TRADE - STEAM COAL			
Exporting Countries	2009 (1-6) Mt	2008 (1-6) Mt	Diff. 2008/09 Mt
PACIFIC			
Australia	67	59	8
China	11	24	- 13
Indonesia	78	77	1
Vietnam	12	13	- 1
Others	10	10	0
SUB-TOTAL	178	183	- 5
ATLANTIC			
Colombia	31	34	- 3
Russia	46	43	3
South Africa	39	35	4
Venezuela	2	4	- 2
USA	7	8	- 1
Others	8	8	0
SUB-TOTAL	133	132	- 1
TOTAL	311	315	- 4
incl. Anthracite and PCI-Coal			
Source: VDKI			

WORLD SEABORNE COAL TRADE - COKING COAL			(inc. PCI-Coal)
Exporting Countries	2009 (1-6) Mt	2008 (1-6) Mt	Diff. 2008/09 Mt
Australia	57	66	- 9
Canada	8	14	- 6
China	0	2	- 2
Russia	2	2	0
USA	13	18	- 5
TOTAL	80	102	- 22
Source: VDKI provis. Figures			

EU CRUDE STEEL PRODUCTION			
COUNTRY	2009 (1-6) Mt	2008 (1-6) Mt	Change in %
Austria	2.5	3.9	- 37.5
Belgium	2.4	6.1	- 60.5
Bulgaria	0.3	0.8	- 56.5
Czech Republic	2.0	3.6	- 43.1
Finland	1.3	2.4	47.6
France	5.9	10.0	- 41.5
Germany	13.8	24.4	- 43.5
Greece	1.1	1.4	- 22.2
Hungary	0.6	1.2	- 47.6
Italy	9.8	17.0	- 42.8
Luxembourg	1.0	1.6	- 33.4
Netherlands	1.9	3.9	- 50.1
Poland	3.0	5.4	- 43.9
Romania	1.2	2.9	- 59.5
Slovakia	1.7	2.6	- 34.6
Slovenia	0.2	0.4	- 48.5
Spain	6.8	10.6	- 36.1
Sweden	1.4	2.9	- 53.7
United Kingdom	4.3	7.5	- 41.8
Others	1.0	1.0	0
EU-27	62.2	109.6	- 43.2
Source: IISI			

COUNTRY	EU Hard coal production		EU Hard coal sales		EU Coke production **	
	1-6 2009 Mt	1-6 2008 Mt	1-6 2009 Mt	1-6 2008 Mt	1-6 2009 Mt	1-6 2008 Mt
Bulgaria *	1.1	1.4	1.1	1.4	0	0.3
Czech Republic	5.6	6.7	4.7	7.2	1.1	1.8
Germany	7.0	10.2	4.8	9.3	0.7	1.0
Poland	38.6	45.1	41.7	34.6	4.7	2.7
Romania	1.1	1.5	1.1	1.5	0.4	0.7
Spain	5.1	5.4	4.9	5.2	0.9	1.1
United Kingdom	8.9	8.3	8.5	8.2	2.0	2.3
EU-27	67.4	78.6	66.8	67.4	9.8	9.9

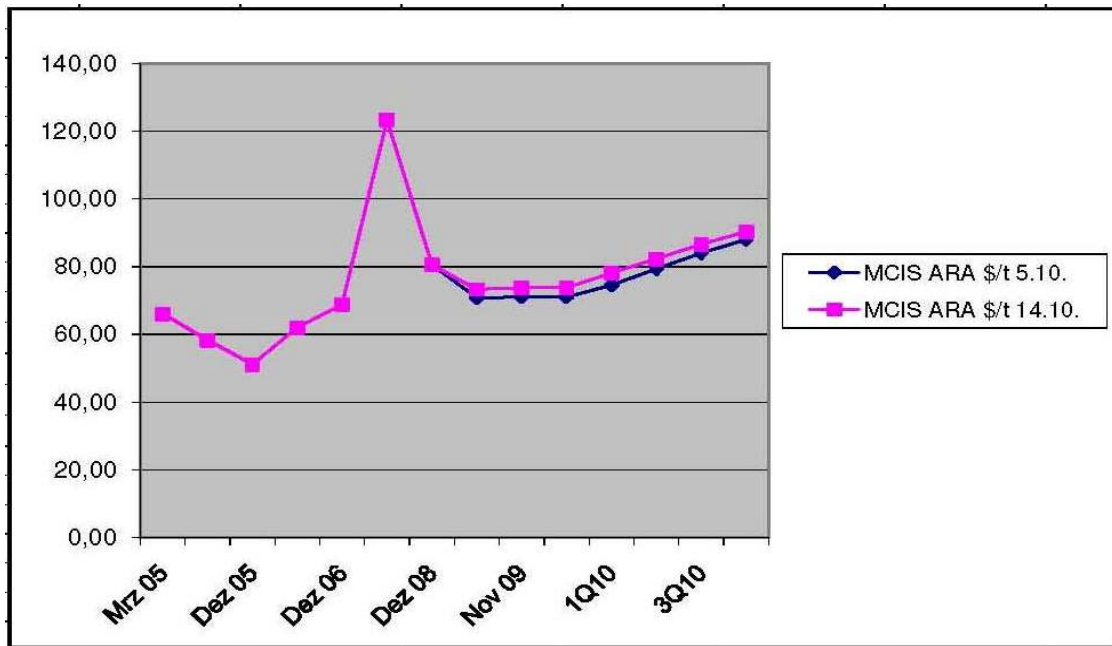
* brown and black coal

** only hard coal producing countries

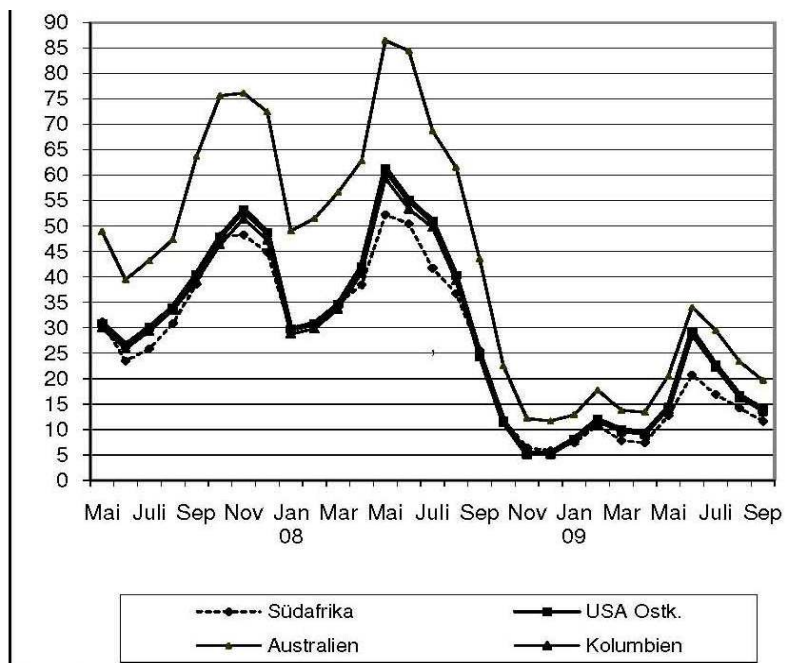
COUNTRY	EU Lignite production		EU Consumpt. Public power plants	
	1-6 2009 Mt	1-6 2008 Mt	1-6 2009 Mt	1-6 2008 Mt
Bulgaria	11.6	11.9	11.5	11.8
Czech Republic	23.0	24.5	19.1	20.2
Germany	85.7	85.7	78.0	78.3
Greece	31.8	30.9	31.9	30.1
Hungary	4.5	4.5	4.7	4.6
Poland	28.0	28.6	27.8	28.1
Romania	14.2	15.6	14.2	15.6
Slovakia	2.5	2.5	2.5	2.5
Slovenia	2.3	2.4	2.3	2.2
EU-27	203.6	206.6	192.0	193.4

COUNTRY	EU Coking coal imports		EU Steam coal imports		EU Total coal imports	
	1-6 2009 Mt	1-6 2008 Mt	1-6 2009 Mt	1-6 2008 Mt	1-6 2009 * Mt	1-6 2008 Mt
Austria					2.0	1.8
Belgium			1.2		2.0	3.0
Bulgaria	0	0.3	0.6	0.9	0.6	1.2
Czech Republic	0.3	0.6	0.5	0.6	0.8	1.2
Denmark					2.0	2.5
Finland					1.5	2.5
France					8.0	7.0
Germany	3.3	4.5	14.5	16.9	17.8	21.4
Greece					0.2	0.4
Hungary	0.4	0.8	0.2	0.2	0.6	1.0
Ireland					1.5	2.0
Italy					11.5	13.5
Netherlands	1.2	1.6	4.6	4.4	5.8	6.3
Poland	2.0	2.6	3.2	1.9	5.2	4.5
Portugal					1.5	2.0
Romania					0.1	0.3
Slovakia					1.5	2.5
Spain	2.2	2.2	6.5	6.3	8.7	8.5
Sweden					0.8	1.1
United Kingdom	2.6	3.3	19.6	17.6	22.2	20.9
EU-27					94.3	103.6

* preliminary figures

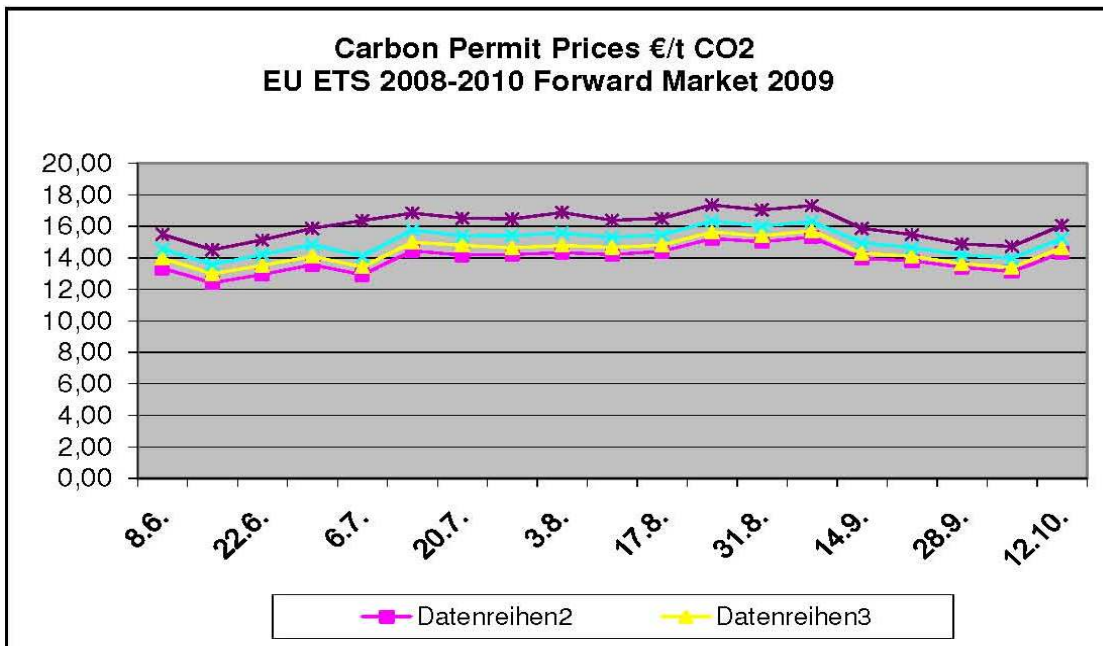


source: VDKI

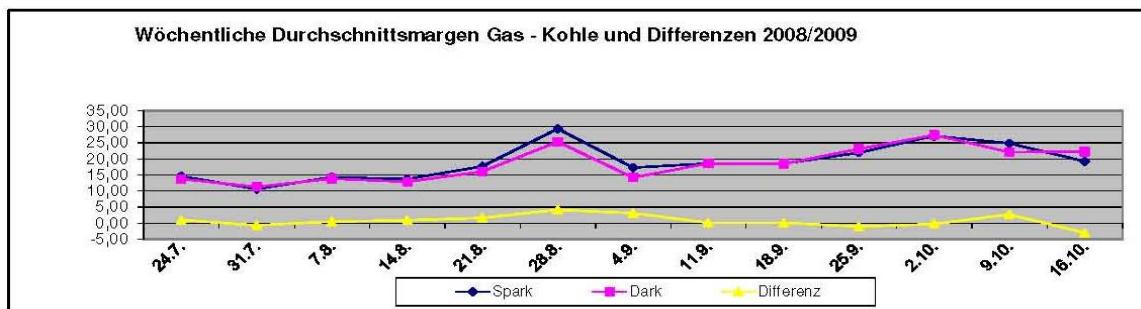


Capesize-Einheiten nach Empfangshäfen ARA / Quelle: Frachtcontor Junge Co., eigene Berechnungen
2004

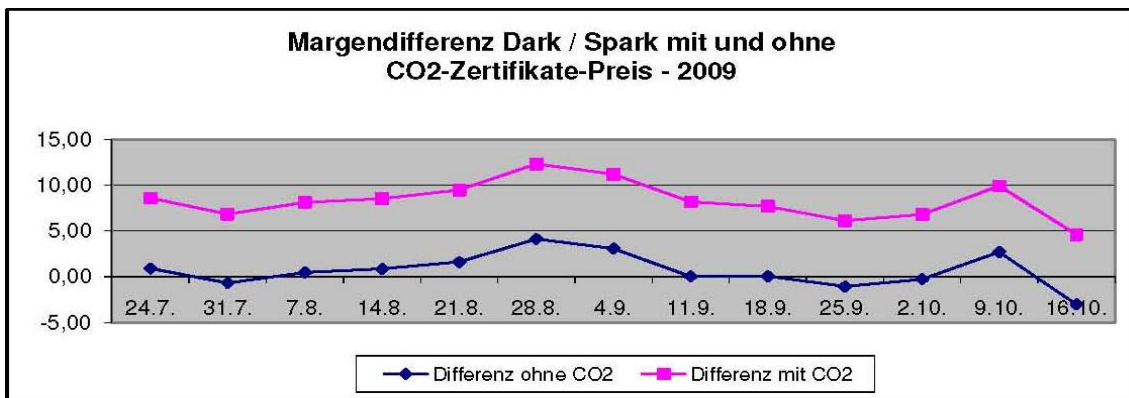
source: VDKI



source: VDKI



Difference: Spark - Dark; plus difference: advantage for gas/minus difference advantage for coal



Source: VDKI